

EAGLE HARBOR TOWNSHIP, MICHIGAN
(Keweenaw)
FINANCIAL REPORT

Year ended March 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Eagle Harbor Township	County Keweenaw
Audit Date 3/31/04	Opinion Date 07/12/04	Date Accountant Report Submitted to State: 07/28/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

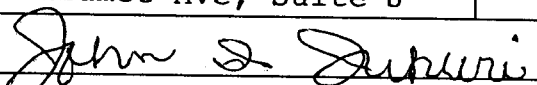
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) John I. Jukuri, CPA			
Street Address 56730 Calumet Ave, Suite J	City Calumet	State MI	ZIP 49913
Accountant Signature 			

RECEIVED
DEPT. OF TREASURY

AUG 23 2004

LOCAL AUDIT & FINANCE DIV.

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JOHN I. JUKURI
CERTIFIED PUBLIC ACCOUNTANT
56730 Calumet Avenue, Suite J
Calumet, Michigan 49913
Tel. (906) 337-0662
Fax (906) 337-2587

INDEPENDENT AUDITOR'S REPORT

Board Members
Eagle Harbor Township, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eagle Harbor Township, Michigan as of and for the year ended March 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1(C), the basic financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note 1(D) to the basic financial statements, management has not recorded certain capital assets in its governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of Eagle Harbor, Michigan as of March 31, 2004, and the changes in financial position thereof for the year then ended.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the Township's assets, liabilities, net assets/fund equity and revenues and expenditures/expenses arising from modified cash basis transactions as of and for the year ended March 31, 2004, and the

cash flows of its Enterprise Funds for the year then ended on the modified cash basis of accounting described in Note 1(C), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As described in Note 1 the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of March 31, 2004.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 12, 2004 on my consideration of the Township's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 8 and 28 through 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Eagle Harbor Township, Michigan's basic financial statements. The introductory section and combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, I express no opinion on them.


John I. Jukuri, CPA

Calumet, Michigan
July 12, 2004

EAGLE HARBOR TOWNSHIP

321 Centre Street
Eagle Harbor, MI 49950

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Eagle Harbor Township, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2004. Please read it in conjunction with the Township's financial statements that follow.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. GASB Statement No. 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the Township's annual report. While Eagle Harbor Township, Michigan was not required to implement the provisions of GASB Statement 34 until the year ending March 31, 2005, Township management has elected to early implement the new model financial statement format and content.

Report Components

This annual report consists of five parts as follows:

Government-wide Financial Statements: The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township government-wide (or "as a whole") and present a longer-term view of the Township's finances.

Fund Financial Statements: Fund financial statements focus on the individual parts of the Township government. Fund financial statements also report the Township's operations in more detail than the government-wide statements by providing information about the Township's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statements offer short-term and long-term financial information about the activities the Township operates like businesses, such as the water and solid waste services. For *fiduciary activities* these statements account for assets held by the Township as an agent or trustee for others and includes the current and delinquent tax accounts.

Notes to Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management Discussion and Analysis and the General, Fire Operating and Fire Fund Budgetary Comparison Schedules represent financial information required to be presented by the GASB. Such information provides

users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Other Supplementary Information: This part of the annual report includes optional financial information such as combining statements for non-major funds, which are added together and shown in the fund financial statements in a single column. This other supplemental financial information is provided to address certain specific needs of various users of the Township's annual report.

The Township as a Whole

The Township's Reporting Entity Presentation

This annual report includes all activities for which the Township is fiscally responsible. These activities, defined as the Township's reporting entity, are operated within separate legal entities that make up the primary government.

Government Wide Financial Information

The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities. These statements include all of the Township's assets and liabilities resulting from the use of the modified cash basis of accounting.

In the Statement of Net Assets and the Statement of Activities, we divide the Township into two kinds of activities:

Governmental activities - Most of the Township's basic services are reported here, including the general administration, public safety and recreation. Property taxes, state statutory aid and state and federal grants finance most of these activities.

Business-type activities - The Township charges a fee to its water customers and a special assessment to Township residential property owners for solid waste to help cover all or most of the cost of the services it provides.

Since this is the first year that financial information has been reported under the new financial model, comparative information is not available.

In a condensed format the table below provides a summary of the township's net assets (in thousands of dollars) as of March 31, 2004.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets	\$ 326.7	\$ 121.3	\$ 448.0
Noncurrent assets	<u> </u>	<u>582.8</u>	<u>582.8</u>
Total Assets	326.7	704.1	1,030.8
Current liabilities	<u>(27.3)</u>	<u> </u>	<u>(27.3)</u>

Net Assets			
Invested in Capital Assets		582.8	582.8
Restricted for other purposes	57.0		57.0
Unrestricted	<u>242.4</u>	<u>121.3</u>	<u>363.7</u>
Total Net Assets	\$ 299.4 =====	\$ 704.1 =====	\$ 1,003.5 =====

The current level of unrestricted net assets (the part of net assets that can be used to finance day to day operations) for our governmental activities stands at \$242,369 or about 55% of expenditures.

The results of this year's operations for the Township as a whole are reported in the statement of activities, which shows the change in the net assets (in thousands of dollars) as of March 31, 2004 and are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Program Revenues			
Charges for services	\$ 6.5	\$ 92.1	\$ 98.6
Operating grants and contributions	6.3		6.3
Capital grants and contributions	309.2		309.2
General Revenues			
Property taxes	170.8		170.8
State-shared revenues	24.0		24.0
Unrestricted investment earnings	7.0	2.0	9.0
Miscellaneous	<u>2.4</u>	<u> </u>	<u>2.4</u>
Total Revenues	<u>526.2</u>	<u>94.1</u>	<u>620.3</u>
Program Expenses			
Legislative	5.2		5.2
General Government	60.0		60.0
Public Safety	28.4		28.4
Public Works	16.7		16.7
Recreation	312.7		312.7
Other	13.6		13.6
Interest on long-term debt	3.0		3.0
Water		65.9	65.9
Solid waste	<u> </u>	<u>29.8</u>	<u>29.8</u>
Total Expenses	<u>439.6</u>	<u>95.7</u>	<u>535.3</u>
Changes in Net Assets	\$ 86.6 =====	\$ (1.6) =====	\$ 85.0 =====
<u>Governmental Activities</u>			

The Township's total governmental revenues exceeded expenditures by \$86,704.

During the year, the Township purchased 360 acres of land for \$307,472. The Township received a federal grant of \$246,400 and private donations funded the remainder of the purchase price.

Business-Type Activities

The Township's business-type activities consists of the Water and Solid Waste Funds. We provide water services to approximately 135 Township residents. The water revenues exceeded its expenses by \$12,717, excluding \$13,625 of depreciation expense. Township residential property owners are charged a special assessment for solid waste. The solid waste revenues exceeded its expenses by \$2,220, excluding \$2,856 of depreciation expense.

The Township's Funds

Our analysis of the Township's major funds follows the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds for March 31, 2004 include the General Fund, Fire Operating and Fire Fund.

The General Fund pays for most of the Township's governmental services. The most significant are for general government activities and public works, which incurred expenses of approximately \$54,684 and \$14,140, respectively during the year.

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account events during the year. The most significant changes were to increase federal aid by \$7,200 for grants received and decrease capital outlay by \$11,000. Township departments overall stayed below budget, resulting in total expenditures of \$54,837 below budget.

Debt Administration

At year end, the Township had \$27,000 in general obligation bonds outstanding for its governmental activities.

Contacting the Township's Management

This financial report is intended to provide a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Government Wide Statement of Net Assets - Modified Cash Basis March 31, 2004

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
Cash	\$ 322,915	\$ 121,260	\$ 444,175
Due from other governments	3,743		3,743
Capital assets, net		582,784	582,784
Total Assets	326,658	704,044	1,030,702
LIABILITIES			
Due to other governments	231		231
Noncurrent liabilities			
Due within one year	27,000		27,000
Total Liabilities	27,231		27,231
NET ASSETS			
Invested in capital assets		582,784	582,784
Restricted for other purposes	57,058		57,058
Unrestricted	242,369	121,260	363,629
Total Net Assets	\$ 299,427	\$ 704,044	\$ 1,003,471
	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Government Wide Statement of Activities - Modified Cash Basis Year Ended March 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Legislative	\$ 5,199	\$	\$	\$	\$ (5,199)	\$	\$ (5,199)
General Government	59,979	5,103	4,436		(50,440)		(50,440)
Public Safety	28,439		1,883		(26,556)		(26,556)
Public Works	16,653	1,430			(15,223)		(15,223)
Recreation	312,734			309,237	(3,497)		(3,497)
Other	13,560				(13,560)		(13,560)
Interest on Long-Term Debt	2,969				(2,969)		(2,969)
Total Governmental Activities	439,533	6,533	6,319	309,237	(117,444)		(117,444)
Business-Type Activities							
Water	65,855	63,625				(2,230)	(2,230)
Solid Waste	29,794	28,437				(1,357)	(1,357)
Total Business-Type Activities	95,649	92,062				(3,587)	(3,587)
Total Primary Government	\$ 535,182	\$ 98,595	\$ 6,319	\$ 309,237	(117,444)	(3,587)	(121,031)
	=====	=====	=====	=====			
General Revenues							
Property taxes					170,818		170,818
State-shared revenues					23,964		23,964
Unrestricted investment earnings					6,969	2,043	9,012
Miscellaneous					2,397		2,397
Total General Revenues					204,148	2,043	206,191
Changes in Net Assets					86,704	(1,544)	85,160
Net Assets - Beginning					212,723	705,588	918,311
Net Assets - Ending					\$ 299,427	\$ 704,044	\$ 1,003,471
					=====	=====	=====

The accompanying notes are an integral part of the financial statements.

EAGLE HARBOR TOWNSHIP, MICHIGAN
Balance Sheet - Modified Cash Basis
Governmental Funds
March 31, 2004

	General Fund	Fire Operating Fund	Fire Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 267,980	\$ 40,984	\$ 7,383	\$ 6,568	\$ 322,915
Due from other governments	<u>3,743</u>				<u>3,743</u>
TOTAL ASSETS	<u>\$ 271,723</u> =====	<u>\$ 40,984</u> =====	<u>\$ 7,383</u> =====	<u>\$ 6,568</u> =====	<u>\$ 326,658</u> =====
LIABILITIES					
Due to other governments	<u>\$ 231</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 231</u>
FUND BALANCES					
Reserve for parks	1,400				1,400
Reserve for community building	2,429				2,429
Reserve for plat	16,200				16,200
Reserve for road	3,257				3,257
Reserve for capital acquisitions	33,772				33,772
Unreserved	<u>214,434</u>	<u>40,984</u>	<u>7,383</u>	<u>6,568</u>	<u>269,369</u>
TOTAL FUND BALANCES	<u>271,492</u>	<u>40,984</u>	<u>7,383</u>	<u>6,568</u>	326,427
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 271,723</u> =====	<u>\$ 40,984</u> =====	<u>\$ 7,383</u> =====	<u>\$ 6,568</u> =====	

Reconciliation to Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current period and are not reported in the funds

(27,000)

Net Assets of Governmental Activities

\$ 299,427
=====

The accompanying notes are an integral part of the financial statements.

EAGLE HARBOR TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures, and Changes in Fund Balance - Modified Cash Basis
Governmental Funds
Year Ended March 31, 2004

	General Fund	Fire Operating Fund	Fire Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 114,239	\$ 24,949	\$ 31,630	\$	\$ 170,818
Federal aid	246,400				246,400
State aid	23,964			908	24,872
Charges for services	4,573			1,430	6,003
Interest and rents	6,434	622	291	152	7,499
Other	69,670	975			70,645
Total Revenues	<u>465,280</u>	<u>26,546</u>	<u>31,921</u>	<u>2,490</u>	<u>526,237</u>
Expenditures					
Legislative	5,199				5,199
General government	54,684	60	80	180	55,004
Public safety	1,706	16,022		750	18,478
Public works	14,140			2,513	16,653
Recreation	1,218				1,218
Other	13,560				13,560
Capital outlay	316,491	9,961			326,452
Debt service			45,969		45,969
Total Expenditures	<u>406,998</u>	<u>26,043</u>	<u>46,049</u>	<u>3,443</u>	<u>482,533</u>
Excess of Revenues over (under) Expenditures	<u>58,282</u>	<u>503</u>	<u>(14,128)</u>	<u>(953)</u>	<u>43,704</u>
Other Financing Sources (Uses):					
Operating transfers in	10				10
Operating transfers out		(10)			(10)
Total Other Financing Sources (Uses)	<u>10</u>	<u>(10)</u>			
Net Change in Fund Balances	58,292	493	(14,128)	(953)	43,704
Fund Balance - Beginning of Year	<u>213,200</u>	<u>40,491</u>	<u>21,511</u>	<u>7,521</u>	
FUND BALANCE - End of Year	<u>\$ 271,492</u>	<u>\$ 40,984</u>	<u>\$ 7,383</u>	<u>\$ 6,568</u>	

Reconciliation to the Statement of Activities:

Repayment of principal debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

43,000

Changes in Net Assets of Governmental Activities

\$ 86,704
=====

The accompanying notes are an integral part of the financial statements.

EAGLE HARBOR TOWNSHIP, MICHIGAN
Statement of Net Assets - Modified Cash Basis
Proprietary Funds
March 31, 2004

	<u>Water Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash	\$ 77,797	\$ 43,463	\$ 121,260
Noncurrent Assets			
Capital assets, net of accumulated depreciation	<u>570,348</u>	<u>12,436</u>	<u>582,784</u>
Total Assets	\$ 648,145 =====	\$ 55,899 =====	\$ 704,044 =====
LIABILITIES	\$	\$	\$
NET ASSETS			
Invested in capital assets, net of related debt	570,348	12,436	582,784
Unrestricted	<u>77,797</u>	<u>43,463</u>	<u>121,260</u>
Total Net Assets	\$ 648,145 =====	\$ 55,899 =====	\$ 704,044 =====

The accompanying notes are an integral part of the financial statements.

EAGLE HARBOR TOWNSHIP, MICHIGAN
Statement of Revenue, Expenses and Changes in Net Assets - Modified Cash Basis
Proprietary Funds
Year Ended March 31, 2004

	<u>Water Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Operating Revenues			
Fees	\$ 63,625	\$ 28,437	\$ 92,062
Operating Expenses			
Administration			
Personal services	4,518	1,309	5,827
Contracted services	14,606	4,299	18,905
Utilities and telephone	7,481	15,547	23,028
Repairs and maintenance	4,304	339	4,643
Miscellaneous	19,418	2,760	22,178
Depreciation	1,903	2,684	4,587
	<u>13,625</u>	<u>2,856</u>	<u>16,481</u>
Total Operating Expenses	<u>65,855</u>	<u>29,794</u>	<u>95,649</u>
Operating Income (Loss)	(2,230)	(1,357)	(3,587)
Nonoperating Revenues (Expenses)			
Interest revenue	<u>1,322</u>	<u>721</u>	<u>2,043</u>
Changes in Net Assets	(908)	(636)	(1,544)
Net Assets, Beginning	<u>649,053</u>	<u>56,535</u>	<u>705,588</u>
Net Assets, Ending	\$ 648,145 =====	\$ 55,899 =====	\$ 704,044 =====

The accompanying notes are an integral part of the financial statements.

EAGLE HARBOR TOWNSHIP, MICHIGAN
Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
Year Ended March 31, 2004

	<u>Water Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 63,625	\$ 28,437	\$ 92,062
Payments to suppliers	(37,624)	(22,639)	(60,263)
Payments to employees	<u>(14,606)</u>	<u>(4,299)</u>	<u>(18,905)</u>
Net Cash Provided by Operating Activities	11,395	1,499	12,894
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	<u>1,322</u>	<u>721</u>	<u>2,043</u>
Net Increase in Cash	12,717	2,220	14,937
Balances - Beginning of the Year	<u>65,080</u>	<u>41,243</u>	<u>106,323</u>
Balances - End of the Year	\$ 77,797 =====	\$ 43,463 =====	\$ 121,260 =====
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ (2,230)	\$ (1,357)	\$ (3,587)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	<u>13,625</u>	<u>2,856</u>	<u>16,481</u>
Net Cash Provided by Operating Activities	\$ 11,395 =====	\$ 1,499 =====	\$ 12,894 =====

The accompanying notes are an integral part of the financial statements.

EAGLE HARBOR TOWNSHIP, MICHIGAN
Statement of Net Assets - Modified Cash Basis
Fiduciary Funds
March 31, 2004

	Agency Fund Type (Property Tax Collection Funds)
ASSETS	
Cash	\$ 27,703 =====
LIABILITIES	
Due to other governments	\$ 27,703 =====

The accompanying notes are an integral part of the financial statements.

EAGLE HARBOR TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the use of a modified cash basis of accounting as discussed in Note 1(C), the Township complies with accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For business-type activities and enterprise funds, the Township has elected to apply FASB pronouncements issued after November 30, 1989. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For fiscal year ended March 31, 2004, the Township early implemented the new financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*.

Implementation of GASB Statement 34

Although the Township presents its annual financial statements on a comprehensive basis of accounting other than GAAP, the aspects of financial statement content and format, as prescribed by GASB Statement 34, have been implemented in the financial statements, effective for the year ended March 31, 2004. The Township was not required to, but elected to, early implement this new pronouncement.

The primary changes from the prior years' financial presentations include:

- The addition of a Management Discussion and Analysis as required supplementary information.
- A new format for the Township's basic financial statements including a government-wide Statement of Net Assets and Statement of Activities, in addition to fund financial statements, with emphasis on major funds, for governmental and proprietary activities.
- The reporting of budget and actual information for the General Fund and other major funds in a new format as required supplementary information.
- Beginning net assets reported in government-wide financial statements will differ from the amounts reported as ending fund equity in the prior year financial statements due to this implementation.
- The change to the direct method of reporting cash flows from operations in the proprietary fund financial statements.

A. FINANCIAL REPORTING ENTITY

Eagle Harbor Township was organized in 1861 and covers an area of approximately 118,645 acres. The Township operates under an elected board of trustees consisting of five members including a supervisor, clerk, treasurer, and two trustees. Many of the Township's residents reside in the community of Eagle Harbor. Services provided to the residents of Eagle Harbor Township include a water supply system, law enforcement, fire protection, solid waste disposal, recreation and community enrichment.

In determining the financial reporting entity, the Township complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units of which the Township appointed a voting majority of the units' board and the Township is either able to impose its will on the unit or a financial benefit or burden relationship exists. The Township has no component units.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Township and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Township.

The reporting entity includes the following special revenue funds: Fire Operating, Fire, Cemetery and Liquor Funds.

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise funds: Water and Solid Waste Funds.

Fiduciary Funds

Agency Funds

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The reporting entity includes the following agency funds: Current and Delinquent Tax Accounts.

Major and Nonmajor Funds

The funds are classified as major or nonmajor as follows:

<u>Major Funds</u>	<u>Nonmajor Funds</u>
General Fund	Special Revenue Funds:
Special Revenue Funds:	Cemetery Fund
Fire Operating Fund	Liquor Fund
Fire Fund	
Proprietary Fund:	
Water Fund	
Solid Waste Fund	

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Assets and the Statement of Activities both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the Township utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Modified Accrual Basis -

Revenues would be recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities.

Expenditures (including capital outlay) would be recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Accrual Basis -

Revenues would be recognized when earned.

Expenses (including depreciation and amortization) would be recorded when the liability was incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions would be recognized when the exchange took place.

D. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of financial reporting "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. As of March 31, 2004 the Township had no cash equivalents.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Inventories

As a result of the use of the modified cash basis of accounting, consumable materials and supplies are recorded as expenditures/expenses at the time of purchase and, therefore, no balances for inventory on-hand are reported in the balance sheet.

Capital Assets

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets should be accounted for as assets in the Statement of Net Assets. Capital assets are defined by the Township as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. All capital assets would be valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which would be recorded at their estimated fair value at the date of donation. However, the Township has not accounted for its capital assets in its governmental funds thus they are not reported in the government-wide statements.

Depreciation of all exhaustible capital assets is recorded in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets for the Township's business-type activities. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of assets is as follows:

Water system and improvements	50 years
Solid waste building	35 years
Machinery and equipment	10 years

Fund Financial Statements

In the fund financial statements, capital assets acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

Long-Term Debt

All long-term debt arising from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Presently, the Township's long-term debt consists of bonds payable.

Long-term debt arising from cash transactions for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the Township's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same in the government-wide statements.

E. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements:

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- a. Interfund loans - amounts provided with a requirement for repayment are reported as interfund receivables and payables.
- b. Interfund services - sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
- c. Interfund reimbursements - repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
- d. Interfund transfers - flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-Wide Financial Statements:

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- a. Internal balances - amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities which are reported as Internal Balances.
- b. Internal activities - amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers - Internal Activities.

The effect of interfund services between funds are not eliminated in the Statement of Activities.

F. USE OF ESTIMATES

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Township requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

G. DIFFERENCES FROM GAAP

Basis of Accounting

As discussed in Note 1(C), the Township reports both the government-wide financial statements and the fund financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Township is required to follow the budget system provided by Michigan Public Act 621 - Uniform Budgeting and Accounting Act. Annual budgets are adopted by the Board for the General and Special Revenue Funds. The budget basis of accounting does not differ significantly from the modified cash basis used to reflect actual revenues and expenditures for these funds. Budgets are adopted at the activity level. Appropriations lapse at year end.

(3) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated three banks for the deposit of Township funds. The investments policy adopted by the board is in accordance with Public Act 196 of 1997. The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash (checking & savings accounts)	\$ 322,915 =====	\$ 121,260 =====	\$ 27,703 =====	\$ 471,878 =====

The bank balance of the Township's deposits is \$472,201 of which \$128,302 is covered by federal depository insurance and \$343,899 is uninsured.

(4) CAPITAL ASSETS

Capital asset activity resulting from modified cash basis transactions for the fiscal year ended March 31, 2004 was as follows:

	<u>Balance at April 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at March 31, 2004</u>
<i>Business-type activities:</i>				
Building	\$ 15,631	\$	\$	\$ 15,631
Solid waste equipment	24,094			24,094
Water system	677,332			677,332
Total at historical cost	717,057			717,057
Less accumulated depreciation:				
Building	8,932	447		9,379
Solid waste equipment	15,501	2,409		17,910
Water system	93,359	13,625		106,984

Total accumulated depreciation	<u>117,792</u>	<u>16,481</u>		<u>134,273</u>
Business-type activities capital assets, net	\$ 599,265	\$ (16,481)	\$	\$ 582,784
	=====	=====	=====	=====

Depreciation expense was charged to the Township's business-type activities as follows:

Water Fund	\$ 13,625
Solid Waste Fund	<u>2,856</u>
	\$ 16,481
	=====

(5) LONG-TERM DEBT

The reporting entity's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. As of March 31, 2004, there was no long-term debt outstanding, arising from cash transactions, to be repaid from business-type activities.

The government issues bonds to provide for capital acquisitions. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements, if any, are general obligations of the government. Special assessment bonds provide for capital acquisitions that benefit specific properties, and will be repaid from amounts levied against those properties benefitted. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources are received.

Bond activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities						
General Obligation Bonds						
\$160,000 Fire Truck Bonds	4.75%	1-1-06	\$ 70,000	\$ (43,000)	\$ 27,000	\$ 27,000
			=====	=====	=====	=====

During the March 31, 2004 fiscal year the Township paid \$2,969 in interest expense. All of this amount was expensed.

(6) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

There are no interfund receivables/payables for the year ended March 31, 2004.

Interfund Transfers

	<u>Transfers (Out)</u>
	<u>Fire Operating Fund</u>
Transfers In	
General Fund	\$ 10
	=====

(7) PROPERTY TAXES

In accordance with state statutes, property taxes are levied on December 1 and are due and payable on or before February 14 of the following calendar year at which time all unpaid taxes become delinquent. The Township bills and collects its own property taxes. Unpaid delinquent real property tax amounts are collected by the County. Unpaid personal property taxes are collected by the Township.

The 2003 taxable valuation of the Township totaled \$24,896,115 on which ad valorem taxes levied consists of 1.2643 mills for Township operating purposes 2.7786 mills for extra voted Township operating, .9726 mills for fire operating and .7000 mills for the fire fund, raising \$31,258, \$68,701, \$24,045 and \$31,928, respectively. These amounts are recorded in the General, Fire Operating and Fire Funds.

(8) RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. All risk of loss is covered by commercial insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

(9) CONTINGENCIES

The Township receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Township's management, such disallowances, if any, will not be significant to the Township's financial statements.

Required Supplementary Information

EAGLE HARBOR TOWNSHIP, MICHIGAN
Budgetary Comparison Schedule - Modified Cash Basis
General Fund
Year Ended March 31, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning Budgetary Fund Balance	\$ 213,200	\$ 213,200	\$ 213,200	\$
Resources (Inflows)				
Taxes	105,935	105,935	114,239	8,304
Federal aid	240,000	247,200	246,400	(800)
State aid	19,000	19,000	23,964	4,964
Charges for services	3,400	3,400	4,573	1,173
Interest and rents	3,626	3,626	6,434	2,808
Other revenue	61,100	64,070	69,670	5,600
Transfers from other funds	<u>600</u>	<u>600</u>	<u>10</u>	<u>(590)</u>
Amounts Available for Appropriation	<u>646,861</u>	<u>657,031</u>	<u>678,490</u>	<u>21,459</u>
Charges to Appropriation (Outflows)				
Legislative	7,025	7,025	5,199	1,826
General Government	58,915	58,915	54,684	4,231
Public Safety	5,500	5,500	1,706	3,794
Public Works	24,645	24,645	14,140	10,505
Recreation	8,500	8,500	1,218	7,282
Other	38,250	38,250	13,560	24,690
Capital outlay	<u>330,000</u>	<u>319,000</u>	<u>316,491</u>	<u>2,509</u>
Total Charges to Appropriations	<u>472,835</u>	<u>461,835</u>	<u>406,998</u>	<u>54,837</u>
Ending Budgetary Fund Balance	<u>\$ 174,026</u> =====	<u>\$ 195,196</u> =====	<u>\$ 271,492</u> =====	<u>\$ 76,296</u> =====

EAGLE HARBOR TOWNSHIP, MICHIGAN
Budgetary Comparison Schedule - Modified Cash Basis
Fire Operating Fund
Year Ended March 31, 2004

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning Budgetary Fund Balance	\$ 40,491	\$ 40,491	\$
Resources (Inflows)			
Taxes	23,300	24,949	1,649
Interest and rents	500	622	122
Other revenue	<u>500</u>	<u>975</u>	<u>475</u>
Amounts Available for Appropriation	<u>64,791</u>	<u>67,037</u>	<u>2,246</u>
Charges to Appropriation (Outflows)			
General government	100	60	40
Public safety	29,257	16,022	13,235
Capital outlay	6,000	9,961	(3,961)
Transfers to other funds	<u> </u>	<u>10</u>	<u>(10)</u>
Total Charges to Appropriations	<u>35,357</u>	<u>26,053</u>	<u>9,304</u>
Ending Budgetary Fund Balance	\$ 29,434 =====	\$ 40,984 =====	\$ 11,550 =====

EAGLE HARBOR TOWNSHIP, MICHIGAN
Budgetary Comparison Schedule - Modified Cash Basis
Fire Fund
Year Ended March 31, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning Budgetary Fund Balance	\$ 21,511	\$ 21,511	\$ 21,511	\$
Resources (Inflows)				
Taxes	35,000	26,402	31,630	5,228
Interest and rents	<u>150</u>	<u>150</u>	<u>291</u>	<u>141</u>
Amounts Available for Appropriation	<u>56,661</u>	<u>48,063</u>	<u>53,432</u>	<u>5,369</u>
Charges to Appropriation (Outflows)				
General Government	80	80	80	
Debt service	<u>41,015</u>	<u>45,970</u>	<u>45,969</u>	<u>1</u>
Total Charges to Appropriations	<u>41,095</u>	<u>46,050</u>	<u>46,049</u>	<u>1</u>
Ending Budgetary Fund Balance	<u>\$ 15,566</u>	<u>\$ 2,013</u>	<u>\$ 7,383</u>	<u>\$ 5,370</u>

Other Supplementary Information

EAGLE HARBOR TOWNSHIP, MICHIGAN
Combining Balance Sheet - Modified Cash Basis
Non-Major Governmental Funds
March 31, 2004

	<u>Special Revenue Funds</u>		<u>Total Non-Major Governmental Funds</u>
	<u>Cemetery</u>	<u>Liquor</u>	
Assets			
Cash	\$ 5,629 =====	\$ 939 =====	\$ 6,568 =====
 Liabilities & Fund Balances			
Liabilities	\$	\$	\$
Fund Balances			
Unreserved	<u>5,629</u>	<u>939</u>	<u>6,568</u>
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 5,629 =====	 \$ 939 =====	 \$ 6,568 =====

EAGLE HARBOR TOWNSHIP, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balance -
Modified Cash Basis
Non-Major Governmental Funds
Year Ended March 31, 2004

	<u>Special Revenue Funds</u>		<u>Total Non-Major Governmental Funds</u>
	<u>Cemetery</u>	<u>Liquor</u>	
REVENUES			
State aid	\$	\$ 908	\$ 908
Charges for services	1,430		1,430
Interest	<u>133</u>	<u>19</u>	<u>152</u>
TOTAL REVENUES	<u>1,563</u>	<u>927</u>	<u>2,490</u>
EXPENDITURES			
General government	120	60	180
Public safety		750	750
Public works	<u>2,513</u>		<u>2,513</u>
TOTAL EXPENDITURES	<u>2,633</u>	<u>810</u>	<u>3,443</u>
Net Change in Fund Balances	(1,070)	117	(953)
Fund Balances - Beginning of Year	<u>6,699</u>	<u>822</u>	<u>7,521</u>
FUND BALANCES - END OF YEAR	\$ 5,629 =====	\$ 939 =====	\$ 6,568 =====

Federal Programs

EAGLE HARBOR TOWNSHIP, MICHIGAN

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board Members
Eagle Harbor Township, Michigan

I have audited the financial statements of the governmental activities, the business -type activities, each major fund, and the aggregate remaining fund information of Eagle Harbor Township, Michigan as of and for the year ended March 31, 2004, which collectively comprise the Eagle Harbor Township, Michigan's basic financial statements and have issued my report thereon dated July 12, 2004. In my report, my opinion was qualified because the basic financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. In addition, I issued an adverse opinion on the financial statements of the governmental activities of Eagle Harbor Township, Michigan because the financial statements do not record certain capital assets in its governmental activities. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Eagle Harbor Township, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance, which I have reported to management of the Eagle Harbor Township, Michigan in a separate letter dated July 12, 2004.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Eagle Harbor Township, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted a matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Eagle Harbor Township, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness. I also noted other matters involving the internal control over financial reporting that I have reported to management of the Eagle Harbor Township, Michigan, in a separate letter dated July 12, 2004.

This report is intended solely for the information and use of the board membership, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

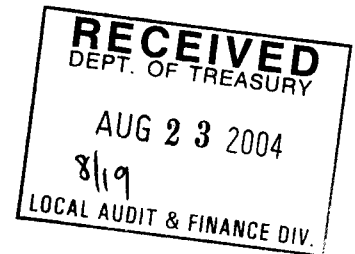

John I. Jukuri, CPA

Calumet, Michigan
July 12, 2004

JOHN I. JUKURI
CERTIFIED PUBLIC ACCOUNTANT
56730 Calumet Avenue, Suite J
Calumet, Michigan 49913
Tel. (906) 337-0662
Fax (906) 337-2587

July 12, 2004

Board Members
Eagle Harbor Township
Eagle Harbor, MI 49950



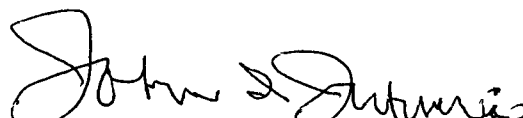
In planning and performing my audit of the financial statements of Eagle Harbor Township, Michigan, for the year ended March 31, 2004, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. I noted certain matters involving the internal control and its operation and other items that came to my attention in the normal conduct of my audit that are presented to assist in improving accounting procedures and controls.

Reportable Conditions/Noncompliance

1. The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Township Board remain involved in the financial affairs of the Township to provide oversight and independent review functions.
2. The financial statements of the Township are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. I recommend that the Township's governmental fund types and agency funds be prepared on a modified accrual basis and proprietary fund types on an accrual basis of accounting in accordance with generally accepted accounting principles.
3. The Township does not maintain a general fixed asset account group for its non-proprietary fund types. I recommend that it be established in order to comply with generally accepted accounting principles. The Township may experience difficulty in acquiring certain cost information when establishing initial property records, however, GASB Cod. sec. 1400.112 permits the use of estimated costs.
4. At March 31, 2004 the Township had \$472,201 in cash, of which \$343,899 was uninsured. I recommend that the Township review its investment policy and procedures to determine if there could be alternative investment strategies that would yield higher investment returns and also allow for FDIC protection.

This report is intended for the information and use of the Board membership and applicable Federal and State agencies. I will be pleased to discuss any of the comments with you at your convenience.

Sincerely,



John I. Jukuri, CPA